

PUBLIC DISCLOSURE

SEPTEMBER 13, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

GLOUCESTER CO-OPERATIVE BANK

160 MAIN STREET

GLOUCESTER, MA 01930

DIVISION OF BANKS
ONE SOUTH STATION
BOSTON, MA 02110

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>

GENERAL INFORMATION

The Community Reinvestment Act (or "CRA") requires the Massachusetts Division of Banks ("Division") to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting its needs of its entire assessment area, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its assessment area.

This document is an evaluation of the CRA performance of **Gloucester Co-operative Bank (or the Bank)** prepared by the Division, the institution's supervisory agency.

INSTITUTION'S CRA RATING: This institution is rated "High Satisfactory"

The overall rating of satisfactory is based on the five criteria that encompass the Community Reinvestment Act regulation for small institutions. The following summarizes the findings that were utilized in formulating the Bank's overall CRA rating.

The Bank's average net loan to deposit ratio for this time period was determined to be 84.8 percent. During this time period, net loans increased approximately 20.1 percent, while total deposits increased by approximately 5.9 percent. Market rank reports for 2002 reveal that the Bank was fifth in originations for HMDA reportable loans in the assessment area. This indicates the Bank's willingness to extend credit and hence Gloucester Co-operative Bank is considered to exceed the standards for satisfactory performance.

The Bank's comparison of credit extended inside and outside of the assessment area meets the standards for satisfactory performance as a majority, 68.3 percent, of the loans originated over the past two years were inside of the Bank's assessment area.

Gloucester Co-operative Bank has demonstrated a strong distribution of HMDA-reportable loans to individuals of low- and moderate-income as 38 percent of the Bank's originations in the assessment area were granted to low and moderate-income individuals. Gloucester Co-operative Bank ranked 4th in lending to low- and moderate-income borrowers throughout the assessment area. The Bank is considered to exceed the standards for satisfactory performance in this area.

The Bank achieved a good dispersion of lending among the moderate- and middle-income census tracts, whereby approximately 40 percent of its originations were in moderate-income census tracts. Gloucester Co-operative Bank ranked 3rd in lending in moderate-income geographies. The Bank is considered to surpass the standards for satisfactory performance in this area.

Gloucester Co-operative Bank did not receive any complaints pertaining to the Community Reinvestment Act. In addition, the Bank's fair lending policies and practices are considered reasonable.

PERFORMANCE CONTEXT

Description of Institution

Gloucester Co-operative Bank is a state chartered co-operative financial institution headquartered at 160 Main Street in Gloucester, Massachusetts. As of June 30, 2004, assets totaled \$119,605,000 of which 77.3 percent are in the form of net loans.

Refer to the following table for additional information on the breakdown of loans.

Loan Portfolio Composition

Loan Type	Amount (000s)	Percent
One to Four-Family Residential Mortgages	\$56,963	61.2%
Equity Lines of Credit	\$ 9,905	10.6%
Multifamily	\$ 2,470	2.7%
Commercial Real Estate	\$11,446	12.3%
Construction and Land Development	\$ 8,992	9.7%
Commercial and Industrial	\$ 2,223	2.4%
Consumer Loans	\$ 1,054	1.1%
Total Gross Loans	\$93,053	100.0%

Source: June 30, 2004 Consolidated Report of Condition

Gloucester Co-operative Bank is primarily a residential lender with 61.2 percent of loans consisting of 1-4 family residential mortgages, followed by commercial real estate with 12.3 percent, equity lines of credit with 10.6 percent, construction and land development with 9.7 percent, multifamily with 2.7 percent, commercial and industrial loans with 2.4 percent and consumer loans with 1.1 percent. The Bank does not originate any 30 year fixed-rate mortgage loans. The Bank primarily offers fixed rate mortgage products with maturities of 15 years or less and adjustable rate mortgage products. The Bank facilitates the origination of 30 year fixed rate mortgages through Plymouth Savings Bank. During the years under review (2002 and 2003), the Bank facilitated the origination of 214 loans totaling \$22,236,100 through its arrangement with Plymouth Savings Bank.

Gloucester Co-operative Bank has strong competition from several financial institutions within its assessment area. Financial institutions that are located throughout the assessment area include but are not limited to the following: Cape Ann Savings Bank, BankNorth N.A., Fleet, as well as several mortgage companies. Cape Ann Savings Bank is considered the Bank's main competitor. The market influence from these institutions appears to be significant, and as a result serves to keep the Bank's rates and services offered competitive.

Market share information obtained from PCI Services, Inc. CRA WIZ, based on 2002 aggregate performance data indicates 224 mortgage companies, savings banks, commercial banks, co-operative banks, and credit unions have either originated or purchased residential mortgage loans within the Bank's assessment area. Out of those 224 lenders, Gloucester Co-operative Bank ranked 5th for loan originations. Cape Ann

Savings Bank is the only locally based institution to rank higher. Other higher ranked institutions are large national banks and mortgage companies.

There are no financial or legal impediments, which could limit the Bank's ability to help meet the credit needs of the assessment area. Gloucester Co-operative Bank has continued to progress forward with its CRA efforts. The Bank's most recent Community Reinvestment Act evaluation was performed by the Federal Deposit Insurance Corporation ("FDIC") which last examined Gloucester Co-operative Bank for CRA as of August 5, 2002 and that evaluation resulted in an overall rating of "Satisfactory". The Division last examined the institution as of July 26, 1999 and assigned the Bank an overall rating of "High Satisfactory".

Description of Assessment Area

Gloucester Co-operative Bank defines its assessment as the City of Gloucester. Gloucester is located in the Boston-NH Metropolitan Statistical Assessment Area ("MSA"). The assessment area is comprised of nine census tracts, five moderate- and four middle-income tracts.

According to the 1990 Census Data, the Bank's assessment area contained a total population of 28,716 individuals, of which 2.1 percent are minorities. This population is comprised of 11,550 households, of which 5,320, or 46 percent, are located within the moderate-income census tracts. Further, of the 11,550 households in the assessment area, 3,569, or 31 percent, are estimated as low-income, and 2,119, or 18 percent, are estimated as moderate-income.

According to 2000 census data, the population of the Bank's assessment area was 30,273, of which 3.8 percent are minorities. This population is comprised of 12,588 households, of which 5,439, or 43 percent, are located within the moderate-income census tracts. The assessment area consists of eight census tracts, 4 moderate-income and 4 middle-income, which reflects a change of one less census tract from the 1990 census data.

The area also consists of 13,958 total housing units. Of this total, 54 percent are owner-occupied. A closer analysis of the total housing units reveals that the majority of the units, 87 percent, are one-to-four family units. Given the makeup of the housing stock (i.e., high percentage of one-to-four family dwellings) and percentage of owner-occupied units, a financial institution within the assessment area has opportunities to make housing-related loans.

The adjusted median family incomes for the Boston-NH MSA for 2002 and 2003 are \$74,200 and \$80,800, respectively. The income figures are based on estimated Department of Housing and Urban Development ("HUD") information. Low-income is defined by the US Census Bureau as income below 50 percent of the median family income level for the MSA. Moderate-income is defined as income between 50 percent and 79 percent of the median family income level for the MSA. Middle-income is defined as income between 80 percent and 119 percent of the median income. Upper-income is defined as income equal to or greater than 120 percent of the median income.

The examiners utilized 1990 census data when analyzing 2002 data and 2000 census data when analyzing 2003 data.

Gloucester has historically relied on the fishing industry as a major source of employment. However, reliance on the fishing industry as the sole provider of employment opportunities is no longer the case. Many of the area's residents are employed by companies located in nearby industrial complexes, within the City of Gloucester, or just outside of the city. Major employers within the area include Gorton's of Gloucester and Varian Corporation. In addition to these employers, the City of Gloucester is also reliant on jobs provided through the tourist industries. Typical of many coastal communities, Gloucester experiences a significant increase in the number of visitors within the summer months. An analysis of the unemployment rate for the City of Gloucester reveals an increasing trend over the past several years, and the rate currently stands at 5.3 percent, slightly greater than the state rate of 4.7 percent.

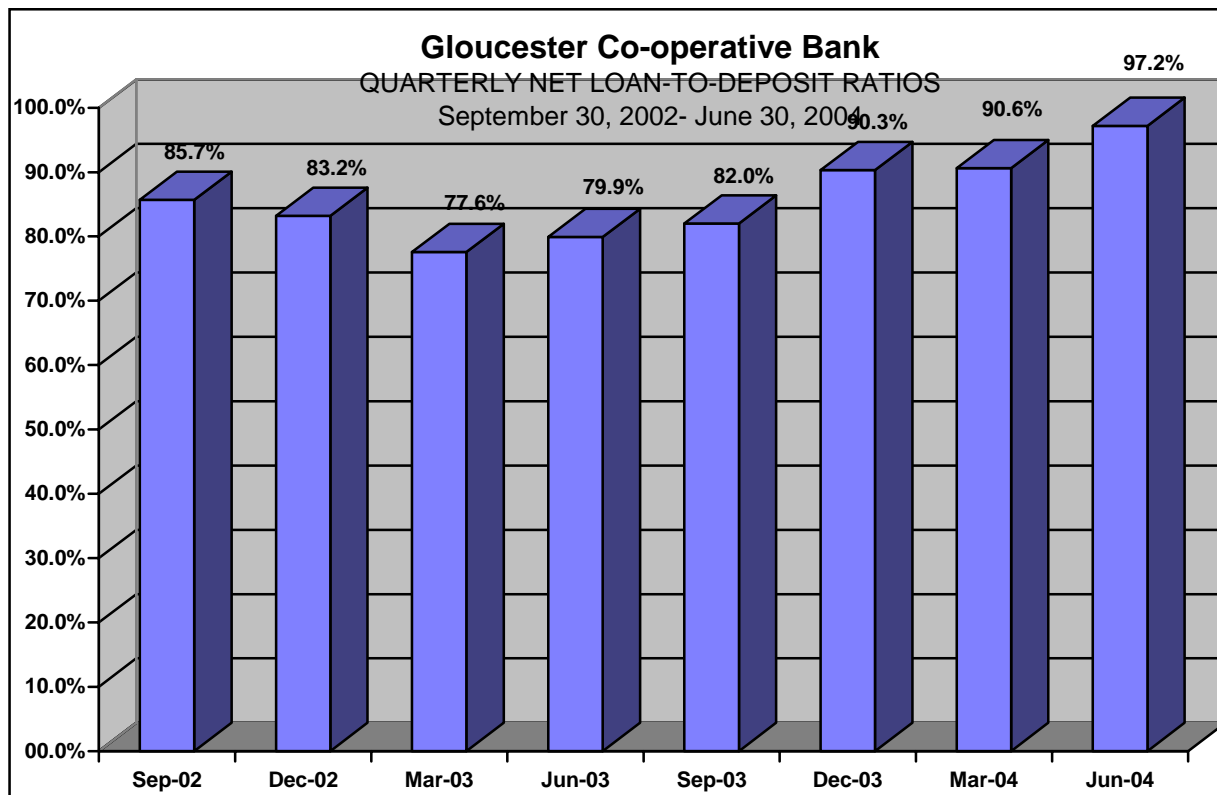
Similar to other areas of Massachusetts, home prices have increased significantly over the past few years. According to the 1990 U.S. Census, the median housing value in the assessment area was \$170,656. More recent data shows that the median sales price of a home (in Gloucester) has steadily increased and currently averages \$340,000 for the first three quarters of 2004.

A community contact performed during the examination spoke of the increasing housing values within Gloucester and its surrounding communities. The contact stated that the cost of housing has impacted the ability of low- and moderate-income individuals to purchase a home. The contact inferred that were it not for the existence of flexible loan programs (i.e., first-time homebuyer programs) at the local banks, many of the low-income applicants would not qualify for conventional financing.

PERFORMANCE CRITERIA

1. LOAN TO DEPOSIT ANALYSIS

An analysis of Gloucester Co-operative Bank's net loan-to-deposit ratio was performed during the examination. The analysis utilized the last eight quarters of the FDIC Call Report data for this institution. This ratio is based on total loans net of unearned income and net of the allowance for loan and lease losses as a percentage of total deposits. The Bank's net loans to total deposits as reported to the FDIC were reviewed from the quarters beginning September 30, 2002 through June 30, 2004. The Bank's average net loan to deposit ratio for this time period was determined to be 84.8 percent. The net loan-to-deposit ratio has also fluctuated over the time period reviewed and is primarily due to slight runoff of mortgage loans due to decreasing mortgage rates and the loss of a commercial loan officer during the time period covered. Data from September 30, 2003 through June 30, 2004 indicates that loan growth outpaced deposit growth. This growth is attributed to an increase in loan originations. During this time period, net loans increased approximately 20.1 percent, while total deposits increased approximately 5.9 percent. This indicates the Bank's willingness to extend credit to its assessment area. The following graph depicts the net loan-to-deposit ratio for each quarter under review.



Market rank reports for 2002 reveal that the Bank was fifth in originations for HMDA reportable loans in the assessment area. Additionally, as stated above, the Bank facilitated the origination of over 200 loans through an agreement with Plymouth Savings Bank. The Bank's level of lending and efforts to facilitate lending are both enhancing factors in the analysis of performance under this criterion as well as the overall performance rating of the institution.

Based on the above information and Gloucester Co-operative Bank's capacity to lend, the strong competition from other institutions in the assessment area, demographic and economic factors present in the assessment area, and the lending opportunities available in the assessment area, the Bank's net loan to deposit ratio is considered to exceed the standards for satisfactory performance.

2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA(S)

Gloucester Co-operative Bank's 2002 and 2003 Loan Application Registers ("LAR"s) were reviewed to determine the amount of credit extended within the Bank's assessment area. During this period, the Bank originated or purchased 355 HMDA reportable loans totaling approximately \$57,681,000. Of these loans, 258 or 72.7 percent were originated inside the Bank's assessment area totaling \$39,386,000 or 68.3 percent.

Refer to the following tables for additional information regarding the Bank's HMDA reportable lending, by both number and dollar volume.

Distribution of Home Mortgage Loans Inside and Outside of the Assessment Area								
Year	Inside				Outside			
	Number of Loans		Dollar in Loans (000s)		Number of Loans		Dollars in Loans (000s)	
	#	%	\$	%	#	%	\$	%
2002	124	81.6%	19,891	76.1%	28	18.4%	6,238	23.9%
2003	134	66.0%	19,495	61.8%	69	34.0%	12,057	38.2%
Total	258	72.7%	15,960	68.3%	97	27.3%	18,295	31.7%

Source: 2002/2003 HMDA DATA

As indicated in the table above, a majority of loans originated during the examination period were inside the Bank's assessment area. There was a significant increase in HMDA-reportable loan originations in 2003 when compared to 2002. Total originations in 2002 were 152 as compared to 203 in 2003, an increase of 33.5 percent. With the increase in originations came a decrease of originations within the assessment area from 2002 to 2003. Total percentage of originations in 2002 was 81.6 percent while the level of percentage of originations dropped to 66 percent for 2003. While the percentage of origination level of 66 percent is considered adequate, the significant decrease of originations inside the assessment area is noted. As previously indicated, additional analysis from PCI Services, CRA WIZ indicates that Gloucester Co-operative Bank ranked 5th for HMDA reportable-loans originated within the assessment area in 2002.

Based on the above information, the analysis indicates that the Bank's comparison of credit extended inside and outside of the assessment area meets the standards for satisfactory performance as a majority of the loans were granted inside the assessment area.

3. DISTRIBUTION OF CREDIT AMONG BORROWERS OF DIFFERENT INCOME LEVELS

The Bank's HMDA reportable loans were further analyzed to determine the distribution of lending by borrower income level. The borrowers' reported incomes were compared to the median family incomes for the Boston-NH MSA. The income figures are based on estimated HUD information.

Low-income is defined by the US Census Bureau as income below 50 percent of the median family income level for the MSA. Moderate-income is defined as income between 50 percent and 79 percent of the median family income level for the MSA. Middle-income is defined as income between 80 percent and 119 percent of the median income. Upper-income is defined as income equal to or greater than 120 percent of the median income.

The following table shows, by number, HMDA-reportable loans to low, moderate, middle and upper-income borrowers in comparison to the percentage of households within the assessment area in each respective income group.

Distribution of HMDA -Reportable Loans Within the Assessment Area to Borrowers of Different Income Levels by Number

Borrower	% Total House-holds	Aggregate (% of #)	2002		2003		Total	
Income Level		2002	#	%	#	%	#	%
< 50%	30.9	6.3%	13	10.5%	22	16.4%	35	13.6%
50 – 79%	18.3	19.3%	23	18.5%	40	29.9%	63	24.4%
80 – 119%	22.7	27.4%	38	30.6%	32	23.9%	70	27.1%
> = 120%	28.1	34.6%	46	37.1%	39	29.1%	85	32.9%
NA	-	12.4%	4	3.2%	1	0.7%	5	2.0%
Total	100.0	100.0%	124	100.0%	134	100.0%	258	100.0%

Source: HMDA/LAR Data for the period 1/1/02 to 12/31/03, U.S. Census, PCI, CRA Wiz

Borrower	% Total House-holds	Aggregate (% of \$)	2002		2003		Total	
Income Level		2002	\$	%	\$	%	\$	%
< 50%	30.9	3.1%	783	3.9%	1,565	8.0%	2,348	6.0%
50 – 79%	18.3	13.9%	3,447	17.3%	5,386	27.6%	8,833	22.4%
80 – 119%	22.7	24.4%	6,096	30.7%	4,947	25.4%	11,043	28.0%
> = 120%	28.1	44.4%	8,690	43.7%	7,174	36.8%	15,864	40.3%
NA	-	14.2%	875	4.4%	423	2.2%	1,298	3.3%
Total	100.0	100.0	19,891	100.0	19,495	100.0	39,386	100.0

Source: HMDA/LAR Data for the period 1/1/02 to 12/31/03, U.S. Census, PCI, CRA Wiz

During 2002 and 2003, Gloucester Co-operative Bank extended 35 HMDA -reportable loans to low-income borrowers representing 13.6 percent of total originations within the assessment area. Although this percentage is well below the 30.9 percent of low-income households within the assessment area, there are mitigating factors present that account for this disparity such as competition, the percentage of people living below the poverty level who cannot afford to purchase a home, as well as the escalating prices of homes throughout the assessment area.

In addition, the Bank extended 63 loans to moderate-income borrowers, representing 24.4 percent by number inside the assessment area. The number of loans to moderate-income borrowers is above the 18.3 percent of moderate-income households within the assessment area.

The distribution of the Bank's loans among various borrower income levels may also be compared to that of all other HMDA-reportable lenders in the assessment area. Other HMDA-reporters include bank and non-bank entities such as large national banking companies, other local banks, credit unions, and mortgage companies. The most recent year for this comparison is 2002.

As shown above, the Bank's percentage of lending to borrowers of low-income is above the aggregate by number and dollar amount for 2002. Gloucester Co-operative Bank originated 10.5 percent by number and 3.9 percent by dollar amount of the total loans within the assessment area to low-income borrowers, compared to the aggregate with 6.3 percent by number and 3.1 percent by dollar amount.

The Bank's HMDA reportable loans originated during 2002 to moderate-income borrowers accounted for 18.5 percent by number and 17.3 percent by dollar amount within the assessment area. The percentage of the number of originations to moderate-income borrowers was slightly below the aggregate while the percentage of the dollar amount was slightly above the aggregates' lending to moderate-income borrowers.

An analysis was performed to determine how the Bank's originations compare to all other lenders within the assessment area. During 2002, the most recent data available, Gloucester Co-operative Bank ranked 4th in lending to low- and moderate-income borrowers throughout the assessment area.

Based on the information above, the Bank's lending to borrowers of different income levels, including those of low- and moderate-income, reflects a strong level of performance. Therefore, Gloucester Co-operative Bank is considered to exceed the standards for satisfactory performance under the distribution of credit among borrowers of different income levels.

4. GEOGRAPHIC DISTRIBUTION

HMDA reportable loans originated inside the assessment area were further analyzed to determine the distribution by census tract income level. The following table illustrates the Bank's originations compared to both the percentage of owner-occupied housing units as well as aggregate performance levels of all other HMDA reportable lenders inside the assessment area. Both percentage of total owner-occupied housing units and aggregate data are based upon 1990 census data as all aggregate data reporting information is based upon that information. Data relating to 2003 originations and totals for the period covered by this evaluation is for informational purposes relating to level and trend of originations.

Census Tract Income Level	% Total Owner-Occupied Housing Units	Aggregate Lending Data (% of #)	2002		2003		Total	
			2002					
			#	%	#	%	#	%
Moderate	34%	32%	50	40%	55	41%	105	41%
Middle	66%	68%	74	60%	79	59%	153	59%
Total	100	100	124	100	134	100	258	100

Source: U.S. Census, HMDA Disclosure Statements (2002, and 2003), and HMDA Aggregate Data (2002)

The Bank's geographic distribution is considered good. The table above reveals that the percentage of the Bank's lending within the area's moderate-income census tracts exceeded both the aggregate percentages and the percentages of total owner-occupied housing units. It is important to note that 60 percent of the housing units located in the

moderate-income census tracts are either rental or vacant units. This statistic, combined with the level of competition, tends to limit opportunities to lend in these areas, yet the Bank has been able to maintain a good level of 40 percent of originations in these tracts.

A review of the market rank reports (2002) for originating loans within the area's moderate-income tracts revealed that Gloucester Co-operative Bank ranked 3rd with a market share of approximately 5.6 percent. It should be noted that the two financial institutions with higher market shares, Cape Ann Savings and Washington Mutual Bank are much larger financial entities.

Based on the information above, the Bank's lending in moderate-income geographies reflects a good level of performance. Given the consistent level of originations and considering the demographic makeup of the assessment area and the level of competition faced by the institution, Gloucester Co-operative Bank is considered to exceed the standards for satisfactory performance under the geographic distribution of credit to moderate-income geographies.

5. FAIR LENDING POLICES AND PRACTICES

A review of the Bank's public comment file indicated that the Bank received no complaints pertaining to the institution's CRA performance since the previous examination. In addition, a review of the Bank's residential loan application files was conducted to evaluate its fair lending policies and procedures. There were no discriminatory practices evident in the file review.

A review of applications inside the assessment area received from minority individuals during 2002 and 2003 was reviewed as part of the examination. This analysis indicates that Gloucester Co-operative Bank only received one application from minority individuals during this time period. This accounts for 0.3 percent of total applications over the past two years.

Gloucester Co-operative Bank received no minority applications during 2002 compared to that of the aggregate that received 78 applications, representing 2.2 percent of all applications, from minority individuals.

OTHER COMMUNITY DEVELOPMENT ACTIVITIES

During the time period covered by this evaluation, the Bank originated an interest-free, irrevocable \$200,000 line of credit for the purpose of facilitating the renovation of nine condominium units of which five were to be offered for sale as affordable housing. The construction project was done through the combination of Community Development Block Grant funds and Housing and Urban Development loans administered through the City of Gloucester.

Gloucester Co-operative Bank's qualified investments and services were analyzed. The Bank's efforts in these areas are somewhat limited, but do support the Bank's overall rating. The following is a brief summary of the Bank's performance in each area.

Investments

Qualified investments are defined as a lawful investment, deposit, membership, or grant that has as its primary purpose community development. The Bank's only investment activity in 2002 and 2003 consisted of monetary contributions and grants to local organizations.

Retail Services

Given the size and complexity of the institution, the Bank's retail services are considered comparable with those of its competition. The Bank offers standard deposit options and loan products. Additionally, the Bank has offered first time homebuyer seminars and participated in financial literacy programs within the assessment area.

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at 6 Harrison Avenue in Abington, Massachusetts.

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee, which does not exceed the cost of reproduction and mailing.

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.